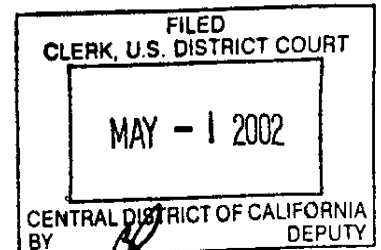


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 JS-2/JS-3 ☒  
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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

xSTORE, Inc., a Delaware  
corporation,

CV 01-11058-SVW (SHx)

Plaintiff,

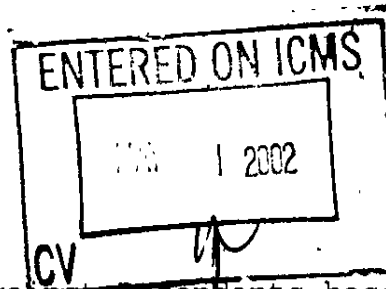
v.

ORDER GRANTING DEFENDANTS'  
MOTION TO DISMISS

MICROTEST, INC., a Delaware  
corporation, MICROTEST, LLC, a  
Delaware limited liability  
company, FLUKE NETWORKS, INC.,  
a Washington corporation,  
VINCENT C. HREN, JAMES E.  
BOREN, WILLIAM R. CROWELL, and  
DOES 1 through 10, inclusive,

Defendants.

☒ Docketed  
☒ Copies / NTC Sent  
☒ JS - 5 / JS - 6  
☒ JS - 2 / JS - 3  
☐ CLSD



I. INTRODUCTION

Plaintiff brings an action against Defendants based on section 43(a) of the Lanham Act, as well as a host of state law claims for unfair competition, misrepresentation, and breach of contract. These claims all arise from alleged misrepresentations made in the course of arms-length negotiations between the parties over the sale of a product.

Defendants bring a motion to dismiss the Lanham Act claim pursuant to Rule 12(b)(6), and subsequently to dismiss the remaining state law claims for lack of original jurisdiction. Two individual

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1 Defendants also bring a motion to dismiss for lack of personal  
2 jurisdiction.

3 As set forth below, Defendant's motion to dismiss the Lanham Act  
4 claim is GRANTED. Since the Court no longer has subject matter  
5 jurisdiction over this action as a result of its decision, the Court  
6 declines to rule on the issue of personal jurisdiction.

## 7 8 **II. FACTUAL / PROCEDURAL BACKGROUND**

9 Plaintiff xStore contracted to purchase the DiscZerver product  
10 line from Defendant Microtest. DiscZerver is a product that provides  
11 users with network attached storage and is comprised of both hardware  
12 and software. The software is comprised, in part, of copyrighted  
13 programs and Linux source code obtained pursuant to the GNU General  
14 Public License ("GPL"). As part of the negotiations for the purchase  
15 of DiscZerver, Microtest allegedly represented that the product was  
16 in compliance with industry (Linux/GPL) requirements, and did not  
17 infringe upon anyone else's intellectual property rights. However,  
18 according to Plaintiff, the product actually had incorporated certain  
19 licenced copyrighted source code into the software, which was then  
20 modified and allegedly represented to be Microtest's proprietary  
21 product.

22 It is this alleged misrepresentation upon which Plaintiff bases  
23 its Lanham Act claim.

24 Defendants bring two separate motions to dismiss. The first is  
25 by Defendants Microtest, LLC (formerly Microtest, Inc.), Fluke  
26 Networks, Inc., and James E. Boren, for failure to state a claim  
27 under the Lanham Act pursuant to Rule 12(b)(6). The second motion is  
28

1 by Defendants William R. Crowell and Vincent C. Hren pursuant to Rule  
2 12(b)(2) for lack of personal jurisdiction, and Rule 12(b)(6) for  
3 failure to allege sufficient facts to support a claim for (i) a  
4 Lanham Act violation, (ii) fraud, and (iii) violation of California's  
5 unfair competition laws.

### 6 7 **III. DISCUSSION**

#### 8 **A. Rule 12(b)(6) Standards**

9 Defendants' motion alleges that, pursuant to Fed. R. Civ. P.  
10 12(b)(6), Plaintiff has failed to state a claim upon which relief may  
11 be granted.

12 In evaluating a motion to dismiss under Rule 12(b)(6), the Court  
13 must accept all allegations of material fact in the complaint as  
14 true, and construe the facts in the light most favorable to the  
15 nonmoving party. See, e.g., Cahill v. Liberty Mutual Ins. Co., 80  
16 F.3d 336, 337-38 (9th Cir. 1996).

17 A complaint must allege "specific wrongdoing" sufficient to  
18 state a claim for relief. See Johnson v. Regan, 524 F.2d 1123, 1124  
19 (9th Cir. 1975). When considering a motion to dismiss, the Court  
20 need not accept as true conclusory allegations or legal  
21 characterizations. Nor need it accept unreasonable inferences or  
22 unwarranted deductions of fact. See Transphase Systems, Inc. v.  
23 Southern California Edison Co., 839 F.Supp. 711, 718 (C.D. Cal.  
24 1993). Nor need the Court assume that Plaintiff can prove facts  
25 different from those it has alleged. See Associated Gen. Contractors  
26 of California v. California State Council of Carpenters, 459 U.S.  
27 519, 526, 103 S.Ct. 897, 902, 74 L.Ed.2d 723 (1983).  
28

1           **B.    Lanham Act Requirements**

2           Plaintiff brings its federal claims pursuant to section 43(a) of  
3   the Lanham Act (15 U.S.C. § 1125(a)(1)). That section provides the  
4   following:

5           Any person who, on or in connection with any goods  
6   or services, or any container for goods, uses in commerce  
7   any word, term, name, symbol, or device, or any  
8   combination thereof, or any false designation of origin,  
9   false or misleading description of fact, or false or  
10   misleading representation of fact, which--

11          (A) is likely to cause confusion, or to cause  
12   mistake, or to deceive as to the affiliation, connection,  
13   or association of such person with another person, or as  
14   to the origin, sponsorship, or approval of his or her  
15   goods, services, or commercial activities by another  
16   person, or

17          (B) in commercial advertising or promotion,  
18   misrepresents the nature, characteristics, qualities, or  
19   geographic origin of his or her or another person's  
20   goods, services, or commercial activities,

21          shall be liable in a civil action by any person who  
22   believes that he or she is or is likely to be damaged by  
23   such act.

24          Section 1125(a)(1)(A) is generally known as false association,  
25   or trademark infringement/false designation of origin. Section  
26   1125(a)(1)(B) is generally known as false advertising. See Waits v.  
27   Frito-Lay, Inc., 978 F.2d 1093, 1108 (9th Cir. 1992) (en banc);  
28

1 Summit Technology, Inc. v. High-Line Medical Instruments, Co., 933  
2 F.Supp. 918, 928 (C.D. Cal. 1996).

3 Although, in its complaint, Plaintiff asserts a claim under both  
4 subsection (A) (false association) and (B) (false advertising), in  
5 its opposition brief, Plaintiff only argues that its false  
6 association claim is viable. Furthermore, Plaintiff only contends  
7 that the offending misrepresentations consist of Microtest's alleged  
8 misrepresentations regarding DiscZerver's industry compliance, and  
9 DiscZerver's non-infringement on anyone's intellectual property  
10 rights. See xStore's Memorandum of Points and Authorities in  
11 Opposition to Defendant's Motion to Dismiss Lanham Act Claims  
12 ("Plaintiff's Opp'n"), at 1; First Amended Complaint ("FAC"), at ¶¶  
13 15, 19, 26, 65.<sup>1</sup>

14  
15 **C. False Association**

16 Plaintiff must plead the following elements in order to state a  
17 claim for false association: (1) defendant uses a designation (any  
18 word, term, name, device, or any combination thereof) or false  
19 designation of origin; (2) the use was in interstate commerce; (3)  
20 the use was in connection with goods or services; (4) the designation  
21 or false designation is likely to cause confusion, mistake, or  
22 deception as to (a) the affiliation, connection, or association of

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23  
24 <sup>1</sup> In the complaint, Plaintiff also claims that Defendants  
25 misrepresented that the DiscZerver chips would not become obsolete  
26 for another eighteen months, and that the DiscZerver boards sold to  
27 xStore were of merchantable quality, free from defects of quality or  
28 material, and were suited for their intended use. See FAC, at ¶¶ 66-  
67. However, in its opposition brief, Plaintiff does not attempt to  
assert that either of these statements qualify as misrepresentations  
suitable for a false association/designation of origin claim or a  
false advertising claim.

1 defendant with another person, or (b) as to the origin, sponsorship,  
2 or approval of defendant's goods, services, or commercial activities  
3 by another person; and (5) plaintiff has been or is likely to be  
4 damaged by these acts. See Summit Technology, Inc., 933 F.Supp. at  
5 928; 3 J. Thomas McCarthy, McCarthy on Trademarks and Unfair  
6 Competition, § 27:13 (4th ed. 2002).

7 "A likelihood of confusion exists when consumers 'are likely to  
8 assume that a product or service is associated with a source other  
9 than its actual source because of similarities between the two  
10 sources' marks or marketing techniques.'" Metro Publishing, Ltd. v.  
11 San Jose Mercury News, 987 F.2d 637, 640 (9th Cir. 1993) (quoting  
12 Nutri/System, Inc. v. Con-Stan Indus., Inc., 809 F.2d 601, 604 (9th  
13 Cir. 1987) and Shakey's Inc. v. Covalt, 704 F.2d 426, 431 (9th Cir.  
14 1983)).

15 Defendants argue that Plaintiff's false association claim fails  
16 for two reasons: (1) Plaintiff does not have standing to assert a  
17 false association of DiscZerver with other systems; and (2) Plaintiff  
18 does not allege that Microtest's wrongful conduct falsely associates  
19 DiscZerver with xStore or with any of xStore's products.

20 According to Waits v. Frito-Lay, Inc., "standing under section  
21 43(a) exists where the interest asserted by the plaintiff is a  
22 commercial interest protected by the Lanham Act." Id., 978 F.2d at  
23 1108. If the party has a commercial interest in the product  
24 wrongfully identified with another's mark, then that party will have  
25 standing. Id., at 1109.

26 Plaintiff argues that it has a reasonable interest to be  
27 protected in this suit, and therefore it has standing to bring this  
28

1 section 43(a) Lanham Act claim. While this may be true, its  
2 reasonable interest has nothing to do with a likelihood of confusion,  
3 or a false association of DiscZerver with any other product. The  
4 harm caused by Defendants' alleged misrepresentation, and the reason  
5 why Plaintiff was concerned in the first place, is because now xStore  
6 is forced to rehabilitate the product to perform as represented, and  
7 to obtain authorization from the Free Software Foundation to copy,  
8 use, modify, publish, and/or distribute the product in compliance  
9 with the GPL. See FAC at ¶ 69.

10 That is not the type of injury or misrepresentation that the  
11 Lanham Act was designed to protect. The main goal of § 43(a) the  
12 Lanham Act is to prevent consumer confusion regarding the source of  
13 the goods or services produced. See Thompson Medical Co. v. Pfizer,  
14 Inc., 753 F.2d 208, 215 (2d Cir. 1985).

15 Essentially, false association manifests in two ways: passing  
16 off and reverse passing off. See, e.g., Sun Trading Distributing  
17 Co., Inc. v. Evidence Music, Inc., 980 F.Supp. 722, 727 (S.D.N.Y.  
18 1997). To the extent that it would apply here, Defendants' actions  
19 could be compared to reverse passing off, which occurs when "the  
20 wrongdoer eliminates the designation of source from the plaintiff's  
21 product and sells that product under its own name." Id. However, as  
22 indicated by the description, such reverse passing off would require  
23 that the false association be made with *the plaintiff's* product,  
24 which is not the case here. Furthermore, to the extent that xStore  
25 can still claim injury even though it was not xStore's product that  
26 was allegedly falsely associated with Defendants' product,  
27 Plaintiff's injury is not the type against which the law prohibiting  
28

1 reverse passing off was meant to protect. Reverse passing off was  
2 meant to protect the entity that owns the falsely associated product  
3 because that entity is "involuntarily deprived of the advertising  
4 value of its name and of the goodwill that otherwise would stem from  
5 public knowledge of the true source of the satisfactory product."  
6 Rosenfeld v. W.B. Saunders, Div. of Harcourt Brace Jovanovich, Inc.,  
7 728 F.Supp. 236, 241 (S.D.N.Y. 1990), aff'd, 923 F.2d 845 (2d Cir.  
8 1990).

9 Here, there was no deprivation of advertising value or goodwill.  
10 There was only an alleged misrepresentation as to the compliance of  
11 the product with industry requirements. This misrepresentation,  
12 occurring in arms-length dealing between Plaintiff and Defendants,  
13 even if it did occur, is not alleged to be an attempt to convince  
14 Plaintiff to purchase a product because of a false association with  
15 another product, which would be the type of misrepresentation within  
16 the scope of section 43(a) of the Lanham Act. Instead, it was an  
17 attempt to convince Plaintiff to purchase a product by allegedly  
18 misrepresenting certain facts about the industry compliance and the  
19 commercial viability of the product, which is not within the scope of  
20 false association under section 43(a).

21 Thus, Plaintiff is attempting to federalize an action for  
22 alleged misrepresentations made during the one-on-one negotiation of  
23 a contract for sale of a product. This is not what the Lanham Act  
24 was meant to protect. See Swartz v. Schaub, 826 F.Supp. 274, 276  
25 (N.D. Ill. 1993) ("Essentially, [plaintiff] would seek to federalize  
26 every contract for the sale of goods in which a buyer charges the  
27 seller with misrepresentation, and the law simply does not support  
28



1 that in a one-to-one transaction such as that involved here."); see  
2 also Sun Trading Distributing Co., 980 F.Supp. at 730 ("The Lanham  
3 Act should not be used to transform a breach of contract dispute into  
4 a federal cause of action."). Therefore, Plaintiff has failed to  
5 state a claim for false association under section 43(a) of the Lanham  
6 Act.

#### 7 8 **D. False Advertising**

9 Although Plaintiff has not advanced its argument regarding false  
10 advertising, if Plaintiff were to do so, it would need to plead the  
11 following elements: (1) in its commercial advertisements, defendant  
12 made false statements of fact about its own product; (2) those  
13 advertisements actually deceived or have the tendency to deceive a  
14 substantial segment of their audience; (3) such deception is  
15 material, in that it is likely to influence the purchasing decision;  
16 (4) defendant caused its falsely advertised goods to enter interstate  
17 commerce; and (5) plaintiff has been or is likely to be injured as  
18 the result of the foregoing either by direct diversion of sales from  
19 itself to defendant, or by lessening of the good will which its  
20 products enjoy with the buying public. See Cook, Perkiss and Liehe,  
21 Inc. v. N. Calif. Collection Serv. Inc., 911 F.2d 242, 244 (9th Cir.  
22 1990).

23 In this case, Plaintiff's claim of false advertising - were it  
24 to make one - would fail because, at a minimum, it does not allege  
25 sufficient facts to satisfy the first three elements described above.  
26 In particular, there is no allegation of any commercial advertisement  
27 at issue here. Moreover, there is no allegation that there has been  
28

1 any representation by Defendants that has actually deceived or has  
2 the tendency to deceive a substantial segment of the audience to any  
3 commercial advertisement. Finally, were such a representation  
4 alleged to have been made, there is also no allegation that it would  
5 have been material in that it was likely to affect the purchasing  
6 decision of the commercial audience. Therefore, Plaintiff has failed  
7 to state a claim for false advertising under section 43(a) of the  
8 Lanham Act.

9  
10 **E. Plaintiff's Arguments**

11 Plaintiff's arguments are largely irrelevant to defeating  
12 Defendants' motion, appear to confuse the distinction between a claim  
13 under sections 1125(a)(1)(A) and 1125(a)(1)(B), and are otherwise  
14 unavailing. First, Plaintiff claims that the Lanham Act is not  
15 limited to "palming off" as a result of the 1988 Amendments. Since  
16 those Amendments, Plaintiff contends, the Act encompasses  
17 "misrepresentations about the quality of defendant's own goods, even  
18 where the misrepresentations do not tend to confuse [his] goods with  
19 those of a competitor or otherwise misstate the origin of the good.'" See  
20 Plaintiff's Opp'n, at 3. In support of this argument, Plaintiff  
21 relies primarily on a district court case from 1979.<sup>2</sup> It is unclear  
22 how a case from 1979 can support an argument regarding 1988  
23 amendments.

24 Nevertheless, it is undisputed that section 43(a) the Lanham  
25 Act, as amended, does incorporate more than passing off, as it also

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<sup>2</sup> See In re Uranium Antitrust Litigation, 473 F.Supp. 393, 408  
(N.D.Ill. 1979).

1 incorporates reverse passing off, and false advertising. See Waits  
2 v. Frito-Lay, Inc., 978 F.2d at 1108. However, as discussed above,  
3 Plaintiff cannot state a claim for any of those aspects of section  
4 43(a).

5 Next, Plaintiff argues that it has standing because all that is  
6 required is a "reasonable interest to be protected." While that is  
7 certainly a requirement for standing, it appears that Plaintiff is  
8 attempting to convert the requirements for standing into the  
9 requirements for a viable Lanham Act claim. As discussed above, even  
10 if Plaintiff would otherwise have standing to bring this action,  
11 Defendants have not committed acts covered under the Lanham Act.

12 In other words, even if Defendants did misrepresent the  
13 compliance of the DiscZerver product to xStore, that  
14 misrepresentation only affected the parties' arms-length purchase  
15 transaction. There is no allegation that such misrepresentation had  
16 any broader impact regarding any false association or false  
17 advertising of the product.<sup>3</sup> Therefore, while Plaintiff may  
18 certainly have viable claims, such claims are not covered under  
19 section 43(a) of the Lanham Act.

20 Finally, Plaintiff argues that, even if the Lanham Act claims  
21 were dismissed, there would still be a federal issue because the

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22  
23 <sup>3</sup> Plaintiff, in an obvious attempt to fit its claims within the  
24 Lanham Act, asserts in its opposition brief that the public at large  
25 was also deceived by Defendants' statements. Nevertheless, in  
26 addition to the lack of any factual allegations in the complaint as  
27 to how the public would have been aware of Defendant's alleged  
28 misrepresentations regarding its ownership of the DiscZerver product,  
there are also no allegations as to why this would have any impact on  
the public's purchasing decision. Moreover, it seems that this  
argument would be more suitable to a false advertising claim,  
although Plaintiff's opposition brief only addresses the alleged  
violation in terms of false association.

1 entire action turns on the valid ownership of a copyright. However,  
2 Plaintiff's complaint does not indicate how this is a copyright  
3 dispute. In fact, whether Defendants' owned any copyrights may not  
4 even be in dispute. Rather, the dispute appears to concern what  
5 Defendants' actually represented about such ownership to Plaintiff.  
6 Furthermore, Plaintiff is not the copyright owner of any of the  
7 copyrights at issue, and therefore it could not assert a claim for  
8 copyright infringement under the Copyright Act.

9 Thus, it does not appear that a federal question arises from  
10 copyright in this case, and the Court's feels that Plaintiff should  
11 rethink its position on this issue, particularly considering there is  
12 no complete preemption under copyright law. Nevertheless, while the  
13 Court finds it doubtful that a federal question arises out of this  
14 action, the Court deems it prudent to allow Plaintiff to amend its  
15 complaint and specifically re-plead the copyright question if  
16 Plaintiff so desires.

17 Accordingly, the Court hereby dismisses the Lanham Act claim  
18 without prejudice, as well as the remainder of Plaintiff's claims  
19 pursuant to 28 U.S.C. § 1367 since there are no remaining claims over  
20 which this Court has original jurisdiction.

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1 IV. CONCLUSION

2 For the reasons discussed above, Defendants' motion to dismiss  
3 is GRANTED. Plaintiff's claims are hereby DISMISSED WITHOUT  
4 PREJUDICE and with leave to amend. Plaintiff has ten days to amend  
5 its complaint.

6  
7 IT IS SO ORDERED.

8  
9 DATED: 4/30/02

10   
11 STEPHEN V. WILSON  
12 UNITED STATES DISTRICT JUDGE  
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